

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE MOQHAKA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Moqhaka Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets, cash flows for the year then ended, the statement of comparison of budget and actual amounts, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment, as the municipality did not provide me with documentation to support the cost prices/valuation of assets and evidence that all the additions were accounted for as outlined in the requirements of SA Standards of GRAP, GRAP 17 *Property, plant and equipment* (GRAP 17). In addition, not all assets could be verified and assets were identified that were not included in the asset register. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustment relating to property, plant and equipment stated at R2 196 028 618 (2012: R2 368 705 415) in note 13 to the financial statements was necessary. In addition, community assets were incorrectly classified as infrastructure assets, resulting in an overstatement of infrastructure assets and overstatement of accumulated surplus by R27 359 140 (2012: R28 668 320), respectively. The municipality did not review the residual values and useful lives and perform an impairment assessment of all of the municipality's assets at each reporting date in accordance with SA Standards of GRAP, GRAP 17 and GRAP 26, *Impairment of cash-generated assets*. I was not able to determine the correct net carrying amount of property, plant and equipment as it was impracticable to

do so.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence regarding receivables from exchange transactions, as the municipality was not able to provide me with indigent applications and proof of subsequent payments by debtors. I was unable to confirm consumer receivables by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer receivables from exchange transactions stated at R64 412 868 (2012: R50 261 866) in note 4 to the financial statements were necessary. In addition the municipality did not account for all debts written off in the previous financial year and also did not correctly account for value-added tax (VAT) for those debtors that were impaired, which resulted in receivables being overstated by R83 501 968, VAT receivable overstated by R7 579 540 and debt impairment expense understated by R91 081 508.

Irregular expenditure

6. The municipality did not disclose all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements, resulting in irregular expenditure being understated by R17 365 914 (2012: R52 166 980). The municipality also disclosed irregular expenditure in the financial statements that did not meet the definition of irregular expenditure. Irregular expenditure is therefore overstated by R54 588 840. I was also unable to obtain sufficient appropriate audit evidence regarding irregular expenditure written off of R88 698 826 in the previous financial year, as disclosed in note 52 to the financial statements. I was unable to confirm the amount written off by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for irregular expenditure stated at R144 794 943 (2012: R59 554 331) in the financial statements.

Investment properties

7. The municipality did not determine the fair value of all investment properties as required by SA Standards of GRAP, GRAP 16 *Investment property* (GRAP 16) due to adequate controls not being implemented to perform the fair value evaluation. In addition, I was unable to obtain sufficient appropriate audit evidence regarding investment property, as the municipality duplicated amounts as investment property and other assets and support for the correct classification was not provided. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments relating to investment property stated at R126 228 505 (2012: R126 228 506) in note 11 to the financial statements were necessary.

Capital commitments

8. The municipality did not have adequate systems in place to accurately account for unrecognised contractual commitments at year-end, which resulted in capital commitments as disclosed in note 56 to the financial statements being overstated by R7 793 698 (2012: R16 178 528). I was also unable to obtain sufficient appropriate audit evidence regarding commitments due to an inadequate contract management system and an incomplete contract register being in place. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any

further adjustments relating to commitments stated at R26 772 834 (2012: R109 006 191) in note 56 to the financial statements were necessary.

Service charges

9. The incorrect tariffs were levied to consumer debtor accounts for the first part of the financial year. Consequently, service charges and receivables from exchange transactions are understated by R31 510 483, respectively. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. I was also unable to obtain sufficient appropriate audit evidence regarding service charges, as the municipality could not provide me with support to confirm the accuracy of meter readings as well as the correctness of prepaid electricity. I was unable to confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustments relating to services charges stated at R267 170 065 in note 27 to the financial statements were necessary.

Payables from exchange transactions

10. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, I was not able to determine the full extent of the misstatement in payables from exchange transactions in note 21 to the financial statements, as it was impracticable to do so.

Depreciation and amortisation

11. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation due to the limitation placed on my audit of property, plant and equipment. I was unable to confirm depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and amortisation stated at R242 629 821 (2012: R239 203 159) in note 37 to the financial statements were necessary.

Accumulated surplus

12. I was unable to obtain sufficient appropriate audit evidence for the correction of prior period error of R62 548 370 and an adjustment against accumulated surplus of R94 824 256 included in the accumulated surplus. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to accumulated surplus stated at R2 326 984 492 (2012: R2 490 057 263) in the financial statements were necessary.

Cash flow statement

13. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit of various components of the financial statements as well as differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement in the financial statements were necessary.

Government grants and subsidies

14. I was unable to obtain sufficient appropriate audit evidence regarding government grants and subsidies, as adequate systems are not in place to account for grant income. I was unable to confirm government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments relating to government grants and subsidies stated at R228 899 884 in note 25 to the financial statements were necessary.

Fruitless and wasteful expenditure

15. The municipality did not disclose all fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure which was made in vain and would have been avoided had reasonable care been exercised. I was not able to determine the full extent of the misstatement in fruitless and wasteful expenditure, as it was impracticable to do so. I was also unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure written off of R19 275 792 in the previous financial year, as disclosed in note 53 to the financial statements. I was unable to confirm the amount written off by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to fruitless and wasteful expenditure stated at R27 878 342 (2012: R21 790 081) in note 53 to the financial statements.

Heritage assets

16. I was unable to obtain sufficient appropriate audit evidence regarding heritage assets, as the municipality did not maintain an adequate register. I was unable to confirm heritage assets by alternative means. Consequently, I was unable to determine whether any adjustments relating to heritage assets stated at R885 650 (2012: R885 650), as disclosed in note 10 to the financial statements were necessary.

Inventories

17. The municipality did not disclose vacant residential stands as inventory as required by SA Standards of GRAP, GRAP 12, *Inventory* for the current and prior year. As the municipality did not keep complete and accurate records, I was not able to determine the full extent of the misstatement in inventories, stated at R4 872 068 (2012: R4 781 881) in note 5 to the financial statements as it was impracticable to do so.

Reticulation losses

18. I was unable to obtain sufficient appropriate audit evidence regarding electricity and water losses, as records for the calculation were not available. I was unable to confirm the reticulation losses by alternative means. Consequently, I was unable to determine whether any further adjustments relating to electricity losses stated at R32 433 523 (2012: R25 443 409) and water losses (2012: R10 261 896), as disclosed in note 51 to the financial statements, were necessary. In addition, a difference was identified between the amount disclosed in the financial statements and the supporting schedule provided relating to water losses, resulting in water losses being understated by R2 700 500 in the current financial year.

General expenses

19. I was unable to obtain sufficient appropriate audit evidence regarding general expenses, as supporting documentation were not attached to journals. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine

whether any adjustments relating to general expenses R67 502 415 in note 32 to the financial statements were necessary.

Fines

20. I was unable to obtain sufficient appropriate audit evidence regarding fines, as adequate systems are not in place to account for fines receivable from summonses. I was unable to confirm fines by alternative means. Consequently, I was unable to determine whether any adjustments relating to fines stated at R974 809 in note 29 to the financial statements were necessary.

Finance lease obligation

21. I was unable to obtain sufficient appropriate audit evidence regarding finance lease obligations due to finance lease agreements not being submitted. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments relating to finance lease obligations stated at R379 990 in note 19 to the financial statements were necessary.

Statement of comparison of budget and actual amounts

22. The municipality did not disclose the final approved adjustment budget figures in the financial statements in accordance with SA Standards of GRAP, GRAP 24, *Presentation of budget information in financial statements*. Therefore material differences were identified between the budgeted amounts disclosed in the financial statements and the final adjustment budget. This resulted in the amounts disclosed in the statement of comparison of budget and actual amounts being materially misstated.

Aggregation/ Accumulation of immaterial uncorrected misstatements

23. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial performance:
- Finance costs reflected as R10 417 192 in the statement of financial performance is understated by R1 615 458.
 - Property rates reflected as R42 025 820 in the statement of financial performance is overstated by R1 248 469.
 - Bulk purchases reflected as R164 985 789 in the statement of financial performance is overstated by R1 749 091.
 - Employee related cost reflected as R154 058 086 in the statement of financial performance is understated by R1 357 677.

In addition, I was unable to obtain sufficient appropriate audit evidence and I was unable to confirm or verify the following elements by alternative means:

- Rental income reflected as R4 190 682 in note 31.

As a result, I was unable to determine whether any further adjustments to these elements were necessary.

Disclaimer of opinion

24. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an

opinion on the financial statements.

Emphasis of matters

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

26. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the annual financial statements of the municipality at, and for the year ended, 30 June 2012.

Going concern

27. Note 49 to the financial statements indicates that the Mophaka Local Municipality's current liabilities exceeded its current assets by R49 million (2012: R115 million). This matter, along with other matters as set forth in note 49, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matter

28. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Supplementary explanations of budget variances presented outside the financial statements

29. The supplementary explanations of budget variances contained in appendix E(1) do not form part of the financial statements. I have not audited these explanations and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

30. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

31. I performed procedures to obtain evidence about the usefulness and reliability of the information in the service delivery performance report as set out on pages ... to ... of the annual report.
32. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information*

(FMPPI).

The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

33. The material findings are as follows:

Usefulness of information

34. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 100% of the planned targets not achieved were not reflected in the service delivery performance report. This was due to a lack of monitoring and review of the reporting documents by management.
35. The MSA, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The service delivery performance report submitted for audit purposes did not include the actual performance of 94% of the planned indicators specified in the service delivery and budget implementation plan for the year under review. This was due to a lack of monitoring and review of the reporting documents by management.
36. The National Treasury's FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 24% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to a lack of monitoring and review of the reporting documents by management.
37. The National Treasury's FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 21% of the planned indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to lack of effective mechanisms, systems and processes for the collecting, recording, processing, monitoring and review of the actual performance information.

Reliability of information

38. The National Treasury FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the development priority sanitation, roads and storm water and electricity.

This was due to limitations placed on the scope of my work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority sanitation, roads and storm water and electricity.

39. For all the indicators and targets in respect of the development priority solid waste management, the actual performance was not reported on in the service delivery

performance report. I was therefore unable to obtain the information I considered necessary to satisfy myself as to the reliability of information presented with respect to the development priority solid waste management. This was due to a lack of monitoring and review of the completeness of the reporting documents by management.

Compliance with laws and regulations

40. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

41. The municipal council did not consult with the local community in the drafting and implementation of the municipality's integrated development plan (IDP) by means of a municipal wide structure for community participation, as required by section 28 of the MSA and Municipal planning and performance management (MPPM) regulation 15(1)(a)(i).
42. The IDP adopted by the municipality does not reflect key performance indicators and targets, as required by sections 26 and 41 of the MSA.
43. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by the MPPM regulation 15(3).
44. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
45. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the MPPM regulations 1 and 9(1)(a).
46. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the MPPM regulation 12(1) and 12(2)(e).
47. The annual report for the year under review does not include the performance of the municipality and measures taken to improve performance, as required by section 46 (1)(a) and (c) of the MSA.
48. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Budget

49. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

50. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
51. Unforeseeable and unavoidable expenditure incurred by the municipality was not appropriated in an adjustment budget, as required by section 29(2)(d) of the MFMA.
52. The total unforeseen and unavoidable expenditure incurred exceeded the greater of R 5 million or 4% of own revenue, in contravention of Municipal budget and reporting regulation 72.
53. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and relevant provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements and annual report

54. The 2011-12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
55. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011-12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.
56. The 2011-12 annual report was not made public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
57. Oversight report containing comments on the annual report was not adopted by council within two months from the date on which the 2011-12 annual report was tabled, as required by section 129(1) of the MFMA.
58. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
59. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

Audit committee

60. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
61. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
62. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.

63. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
64. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
65. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
66. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by MPPM regulation 14(4)(a)(i).
67. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPM regulation 14(4)(a)(ii).
68. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPM regulation 14(4)(a)(iii).

Internal audit

69. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
70. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.
71. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPM regulation 14(1)(a).
72. The internal audit unit did not assess the functionality of the performance management system, as required by MPPM regulation 14(1)(b)(i).
73. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by MPPM regulation 14(1)(b)(iii).
74. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the audit committee, as required by MPPM 14(1)(c).

Procurement and contract management

75. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
76. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
77. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
78. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
79. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
80. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
81. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
82. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
83. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
84. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
85. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
86. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
87. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

88. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
89. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).

Human resource management and compensation

90. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of the MSA.
91. Sufficient appropriate audit evidence could not be obtained that appointments were made in posts of manager directly accountable to municipal manager that were advertised, as required by section 54A(4)(a) of the MSA.
92. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff as required by MSA section 67(d).
93. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by MSA section 57(2)(a).
94. Sufficient appropriate audit evidence could not be obtained that some senior managers meet all the prescribed competency areas as required by regulations 6 and 7 of the Municipal regulations on minimum competency levels.
95. Finance officials at middle management did not meet any of the prescribed competency areas as required by regulations 8 and 9 of the Municipal regulations on minimum competency levels.
96. Sufficient appropriate audit evidence could not be obtained that newly appointed managers directly accountable to the municipal manager had disclosed their financial interest prior to appointment as per the requirements of regulation 4 of GNR 805.

Expenditure management

97. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
98. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
99. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

100. Sufficient appropriate audit evidence could not be obtained that the allocation for the Municipal Systems Improvement Grant was utilised for the purposes stipulated in the grant framework, in contravention of section 16(1) of the DoRA.

Revenue management

101. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

102. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
103. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

104. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in contravention of section 32(2) of the MFMA.
105. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in contravention of section 32(2) of the MFMA.
106. Fruitless and wasteful expenditure incurred by the municipality municipal entity was not investigated to determine whether any person was liable for the expenditure, in contravention of section 32(2) of the MFMA.

Internal control

107. I considered internal control relevant to my audit of the financial statements, the service delivery performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the service delivery performance report and the findings on compliance with laws and regulations included in this report.

Leadership

108. The implementation of action plans was not adequately monitored and implemented to address internal control deficiencies identified. Staff of the municipality were also not held accountable due to the performance management system not being implemented at the municipality. Processes to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure were not established. This was due to leadership not taking adequate action to address weaknesses identified.
109. There was a slow response to the message communicated by the AGSA to the administrative and political leadership.

Financial and performance management

110. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure or non-disclosure. No proof could be obtained that the use of consultants was monitored by the chief financial officer to ensure proper transfer of skills to permanent finance staff members.

111. The municipality did not always comply with applicable laws and regulations. There were no formal processes in place to monitor compliance with legislation, which resulted in the number of reported non-compliance issues. There was also a lack of consequences for poor performance or where laws and regulations were not complied with.
112. Staff members do not understand performance information reporting requirements and action was not taken during the year to implement requirements due to the IDP manager also fulfilling other responsibilities and staff not receiving appropriate training in this regard.

Governance

113. The internal audit unit was not sufficiently staffed and effective during the year and therefore the internal audit unit did not assist management in evaluating internal controls to determine the effectiveness and efficiency thereof. The chief audit executive position was also vacant for part of the financial year. As a result the audit committee could not adequately promote accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor - General

Bloemfontein

29 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence